

## Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 EUR-12 IO-10 ISO-00 AF-06 EA-06 NEA-09

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H-01 INR-07 INT-05 L-02 LAB-04 NSAE-00 NSC-05 PA-01

AID-05 CIEP-01 SS-15 STR-01 TAR-01 TRSE-00 USIA-06

PRS-01 SP-02 FEAE-00 OMB-01 OIC-02 /125 W  
----- 082700

P R 071800Z JAN 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 7153

INFO USMISSION GENEVA

USMISSION BRUSSELS

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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E. O. 11652: N/A

TAGS: ETRD, GATT, BR

SUBJECT: BRAZIL'S IMPORT PROGRAM AND BALANCE OF  
PAYMENTS PROSPECTS

REF: A. STATE 279836; B. RIO A-157; C. RIO 4532; D. RIO A-151;  
E. BRASILIA 8859; F. BRASILIA 4685; G. RIO A-104  
H. RIO 2543; I. BRASILIA 9036; J. GENEVA 7528

1. FOLLOWING IS THE FIRST OF THREE MESSAGES DEALING  
WITH BRAZIL'S RECENT TARIFF INCREASES AND QUANTITATIVE IMPORT  
RESTRICTIONS, THE OUTLOOK FOR BRAZIL'S BALANCE OF PAYMENTS,  
AND THE BROADER POLITICAL CONSEQUENCES OF THE PROPOSED US MOVE  
TO HAVE BRAZIL'S IMPORT PROGRAM EXAMINED BY THE GATT.  
THIS MESSAGE (WHICH IS LARGELY BASED ON WORK BY THE EMBASSY'S  
COMMERICAL COUNSELOR AND CONGEN RIO'S ECONOMIC STAFF) EXAMINES  
QUESTIONS RAISED IN REFTTEL (A) AND RELATED ISSUES.

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2. SUMMARY: RECENT GOB MEASURES AIMED AT CURTAILING IMPORTS ARE A PARTIAL REVERSAL OF PREVIOUS POLICY WHICH SOUGHT TO LIBERALIZE IMPORT RESTRICTIONS AND EXPOSE LOCAL MANUFACTURERS TO INCREASE COMPETITION FROM THE WORLD MARKET. THE RECENT IMPORT DECREES TECHNICALLY EXEMPT GATT BOUND TARIFFS; HOWEVER, BRAZIL HAS NOT PROMULGATED THE TARIFF REDUCTIONS AGREED IN MORE RECENT GATT NEGOTIATIONS AND, AS OF NOW, CONSIDERS TARIFFS NEGOTIATED IN THE KENNEDY ROUND THE ONLY PRESENTLY GATT-BOUND TARIFFS. GOB OFFICIALS SAY THAT THE ITEMS COVERED IN RECENT NEGOTIATIONS (SO-CALLED LIST NO. 3) WOULD BE PROMULGATED SOON, SO THAT THESE COMMODITY GROUPS WOULD ALSO BE EXEMPT FROM THE RECENT DECREES. ON THE OTHER HAND, THE GOB REPORTEDLY INTENDS TO RENEGOTIATE TARIFFS ON GENERAL AVIATION AIRCRAFT; AND THE EXEMPTIONS OF LAFTA CONCESSIONS, PROVIDED FOR IN THE DECREES, DO NOT APPLY TO IMPORTS FROM NON-LAFTA SOURCES. A MAXIMUM OF SOME \$50 MILLION OF IMPORTS FROM THE US, OUT OF A TOTAL OF \$1.9 BILLION (CY 73 BASIS), WILL BE AFFECTED BY THE TARIFF INCREASES; WHILE SOME \$90 MILLION IN IMPORTS OF CAPITAL GOODS FROM US SOURCES, WHICH WOULD HAVE BENEFITTED FROM A 50 PERCENT DUTY REDUCTION UNDER THE REGULATION FOR "DISSIMILARS", WILL HENCEFORTH BE SUBJECT TO FULL DUTY. IN COMMENTING ON THIS ARRAY OF MEASURES, GOB OFFICIALS HAVE NOTED THAT UNDER PREVIOUS POLICY ONLY SOME 16.5 PERCENT OF TOTAL IMPORTS WERE SUBJECT TO IMPORT DUTIES IN 1973. THEY CLAIM THAT AVERAGE BRAZILIAN TARIFF RATE HAS FALLEN TO ABOUT 5 PERCENT IN RECENT YEARS. THEY ARGUE THAT UNDER ITS SYSTEM OF FREQUENT MINI-DEVALUATIONS, BRAZIL ALREADY DOES ALL IT CAN TO BALANCE ITS EXTERNAL ACCOUNTS THROUGH EXCHANGE RATE ADJUSTMENTS; IN VIEW OF THE LARGE TRADE DEFICIT IN 1974, BRAZIL HAD NO CHOICE BUT TO REVERSE ITS IMPORT POLICY AND ADOPT AN ARRAY OF RESTRICTIVE MEASURES. GOB OFFICIALS CLAIM, HOWEVER, THAT THE GOB IS SEEKING TO AVOID THE IMPOSITION OF NON-TARIFF BARRIERS, OTHER THAN THE SCREENING OF PROJECTED IMPORTS BY THE PUBLIC SECTOR. END SUMMARY.

3. FOLLOWING ARE EMBASSY'S COMMENTS ON SPECIFIC POINTS OF BRAZIL IMPORT PROGRAM RAISED BY DEPARTMENT IN REFTEL (A) AND RELATED QUESTIONS.

(A) PRODUCTS SUBJECT TO NEW RESTRICTIONS AND/OR DUTY INCREASES:

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LIST OF PRODUCTS SUBJECT TO NEW TARIFF INCREASES UNDER DECREE - LAW NO. 1364 OF NOVEMBER 28, 1974, CONTAINED IN ENCLOSURE 1 OF REFAIR (B). LIST OF PRODUCTS SUBJECT TO TARIFF INCREASES UNDER DECREE LAW NO. 1334 OF JUNE 24, 1974, CONTAINED IN REFAIR (G). WE HAVE NOT COMPARED THE TWO LISTS IN DETAIL TO DETERMINE WHETHER SOME PRODUCTS APPEAR ON BOTH LISTS OR WHETHER LIST OF SOME 500 ITEMS COVERED IN DECREE LAW NO. 1364 IS STRICTLY ADDITIONAL

TO LIST OF SOME 400 ITEMS COVERED BY DECREE LAW NO. 1334.

(B) STATUS OF GATT-BOUND ITEMS:

TEXTS OF BOTH DECREE-LAWS EXCLUDE FROM INCREASE IN  
TARIFF GOODS IMPORTED FROM A CONTRACTING PARTY UNDER THE  
GATT WHEN THE ITEM HAS BEEN SUBJECT OF NEGOTIATION -- IN  
WHICH CASE THE RATES AGREED UPON WILL PREVAIL. THUS,  
ANY GATT-BOUND ITEMS WOULD NOT BE AFFECTED BY THE NEW  
IMPORT MEASURES PROMULGATED ON NOVEMBER 28.

INQUIRIES BY CONGENRIO, HOWEVER, SHOWED THAT THIS CON-  
CLUSION IS SUBJECT TO IMPORTANT QUALIFICATION. WHEN ASKED TO  
CONFIRM FOREGOING, MRS. LUCIA PIRAJA, CHIEF OF INTERNATIONAL  
ADVISORS SECTION, CUSTOMS POLICY COUNCIL (CPA), TOOK POSITION  
THAT AS OF THIS TIME ONLY TARIFF-BOUND ITEMS ARE THE CONCES-  
SIONS NEGOTIATED WITHIN THE KENNEDY ROUND AND PROMULGATED BY  
DECREE-LAW NO. 606 OF JUNE 2, 1969. TARIFF CONCESSIONS RE-  
CENTLY NEGOTIATED BY BRAZIL WITHIN GATT (IDENTIFIED BY CPA  
OFFICIALS AS LIST NO. 3) HAVE NOT AS YET COME INTO EFFECT IN  
BRAZILIAN VIEW SINCE GOB HAS NOT YET ISSUED DECREE-LAW PROMUL-  
GATING THE CONCESSIONS. MRS. PIRAJA EXPECTS THAT THE CONCES-  
SIONS WILL, HOWEVER, BE PROMULGATED IN EARLY 1975. UNTIL GOB  
ACTUALLY PUBLISHES DECREE-LAW FOR GATT LIST NO. 3, ALL ITEMS  
CONTAINED THEREIN WILL BE ASSESSED IMPORT DUTY RATES SPECIFIED  
IN DECREE-LAW 1364. APPLES AND PEARS ARE ITEMS ON GATT LIST  
NO. 3 AND ARE, THEREFORE, ASSESSED 137 PERCENT AD VALOREM  
IMPORT DUTIES AND NOT REPEAT NOT 37 PERCENT. (SEE ALSO SAO PAULO  
2671 AND 2173, TOFAS 173 AND 174).

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SP-02 FEAE-00 OMB-01 AF-06 EA-06 NEA-09 OIC-02 /125 W

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P R 071800Z JAN 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 7154  
INFO USMISSION GENEVA  
USMISSION BRUSSELS  
AMCONSUL RIO DE JANEIRO  
AMCONSUL SAO PAULO

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(C) APPLICABILITY OF LAFTA CONCESSIONS TO IMPORTS FROM  
NON-LAFTA COUNTRIES:

DECREE-LAW NO. 1364 EXCLUDES FROM TARIFF INCREASES BOTH LAFTA  
AND GATT - NEGOTIATED TARIFF RATES (FOR GATT-BOUND RATES,  
NOTE THE IMPORTANT QUALIFICATION UNDER B ABOVE), BUT EXCLUSION  
OF LAFTA-NEGOTIATED ITEMS DOES NOT REPEAT NOT APPLY TO IMPORTS  
FROM NON-LAFTA COUNTRIES.

(D) TIME LIMIT, IF ANY, ON DURATION OF MEASURES:

INCREASES IN IMPORT DUTIES RELATING TO DECREE-LAW  
1334 AS WELL AS DECREE-LAW 1364 ARE VALID  
UP TO DECEMBER 31, 1976. HOWEVER, CPA HAS THE AUTHORITY  
TO REDUCE OR MAINTAIN INCREASES CONTAINED IN THESE DECREE-  
LAWS.

(E) RELATIONSHIP BETWEEN MEASURES OF JUNE 24 AND NOVEMBER  
28:

MEASURES UNDER DECREE-LAW NO. 1364 ARE IN ADDITION TO  
THOSE OF DECREE-LAW NO. 1334. (AS INDICATED UNDER (A) ABOVE  
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WE HAVE NOT UNDERTAKEN DETAILED COMPARISON OF PRODUCT LISTS.)

#### 4. TREATMENT OF AIRCRAFT IMPORTS.

DECREE-LAW NO. 1364 OF NOVEMBER 28 (REFTEL (C) AND REPAIR-  
GRAM (B) PROMULGATES TARIFF MEASURES AND ESTABLISHES MINIMUM  
IMPORT VALUE GUIDES FOR SEVERAL TYPES OF AIRCRAFT. THESE  
MEASURES FOLLOW EARLIER STEPS TO RESTRICT IMPORTS OF CIVIL  
AIRCRAFT ANNOUNCED ON JUNE 24 (REFTEL (F) AND REPAIR (G)).  
ACCORDING TO MRS. PIRAJA, AIRCRAFT ARE AMONG THE ITEMS  
COVERED IN RECENT GATT NEGOTIATIONS AND DUTIES WERE  
SCHEDULED TO BE LOWERED FROM 7 TO 2 PERCENT; THE GOB  
REPORTEDLY IS PLANNING TO RENEGOTIATE THESE CONCESSIONS.

OUR CONCLUSION IS THAT THE NEW MEASURES WILL ADVERSELY  
AFFECT IMPORTS OF GENERAL AVIATION AIRCRAFT IN 1975. IMPORTS  
OF SUCH AIRCRAFT IN 1974 WILL PROBABLY BE AT ABOUT THE SAME  
LEVEL AS IN 1973 -- SOME 600 UNITS -- BUT THE BULK OF THE  
1974 IMPORTS OCCURRED DURING THE FIRST SEVEN MONTHS OF THE  
YEAR, BEFORE THE NEW SCREENING PROCEDURES HAD TIME TO TAKE  
EFFECT. THE RESTRICTIVE EFFECT OF THE NEWLY-ESTABLISHED IMPORT  
DUTY RATE OF 50 PERCENT IS INCREASED BY THE ESTABLISHMENT OF  
MINIMUM VALUE GUIDES, UPON WHICH THE RATE IS COMPUTED. IN  
MANY CASES THESE VALUES APPEAR TO BE ABOVE THE ACTUAL SELLING

PRICE OF THE AIRCRAFT. US EXPORTERS SUPPLY PRACTICALLY ALL OF BRAZIL'S GENERAL AVIATION IMPORTS; THUS, THE US IS THE ONLY COUNTRY REALLY AFFECTED BY THESE NEW RESTRICTIONS.

5. SUSPENSION OF DUTY REDUCTION ON DISSIMILARS:

WHILE APPARENTLY OF LESSER CONCERN IN GATT TERMS, A MEASURE WHICH COULD HAVE A SIGNIFICANT TRADE EFFECT IS THE SUSPENSION OF THE CPA'S AUTHORITY TO GRANT A 50 PERCENT REDUCTION OF IMPORT DUTIES FOR CAPITAL GOODS FOR WHICH NO SIMILAR DOMESTIC PRODUCT EXISTS (REFTEL (C)). ATTACHMENT TO REFAIR (B) PROVIDES THE MOST RECENT LIST OF THE ITEMS ELIGIBLE FOR SUCH REDUCTIONS UNDER CPA RESOLUTION NO. 2209 OF JULY 30, 1974.

WE HAVE SO FAR NOT BEEN ABLE TO OBTAIN OFFICIAL DATA ON THE AMOUNT OF IMPORTS WHICH WERE GRANTED 50 PERCENT REDUCTION UNDER THE PREVIOUS POLICY. NEVERTHELESS, BASED ON DATA RELEASED BY CACEX CONCERNING REQUESTS FOR IMPORT DUTY REDUCTIONS ON IMPORT LICENSES FOR THE PERIOD JANUARY/SEPTEMBER 1974, CONGENRIO ESTIMATES THAT BRAZILIAN IMPORTS LIMITED OFFICIAL USE

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WHICH WOULD HAVE BEEN GRANTED IMPORT DUTY REDUCTIONS DURING CY 1974 WOULD AMOUNT TO ABOUT \$300 MILLION, OUT OF WHICH ABOUT \$90 MILLION FROM THE US. THIS AMOUNT ALSO INCLUDES REDUCTIONS GRANTED ON IMPORTS OF OTHER ITEMS (INCLUDING RAW MATERIALS AND INTERMEDIARY PRODUCTS). THE 50 PERCENT PROVISION FOR CAPITAL GOODS, HOWEVER, APPEARS TO BE THE MAJOR SOURCE FOR IMPORT DUTY REDUCTIONS.

6. DIRECTED PROCUREMENT:

WE HAVE LITTLE TO ADD AT THIS TIME TO PREVIOUS EMBASSY REPORTING WITH RESPECT TO IMPORTS OF THE PUBLIC SECTOR, INCLUDING MIXED ENTERPRISES (REFTEL (E) AND REFAIR (D)). EFFORTS ARE CONTINUING TO OBTAIN A FULLER UNDERSTANDING OF THE SYSTEM AND ITS ECONOMIC EFFECTS, INCLUDING THE IMPACT ON IMPORTS.

A SIGNIFICANT ASPECT OF TIS PROGRAM APPEARS TO BE THE PROVISION OF DECREE-LAW NO. 74,908 (REFTEL (D)), REQUIRING GOVERNMENT AGENCIES TO TAKE INTO ACCOUNT IN THEIR PURCHASES ABROAD THE TRADE BALANCE WITH THE SUPPLYING COUNTRY, I.E., TO FAVOR COUNTRIES WITH WHICH BRAZIL MAINTAINS A FAVORABLE BALANCE OF TRADE.

IN ASSESSING EFFECTS ON THE AGGREGATE LEVEL OF TRADE, AN IMPORTANT ASPECT IS THAT THE PROGRAM SEEMS TO IMPLY A FOREIGN EXCHANGE BUDGET FOR THE PUBLIC SECTOR. SENIOR GOB POLICY MAKERS HAVE REPEATEDLY EMPHASIZED BOTH IN CONVERSATIONS WITH THE EMBASSY AND IN PUBLIC STATEMENTS, THAT THE IMPROVEMENT OF BRAZIL'S TRADE ACCOUNT WILL HAVE TOP PRIORITY IN 1975, AND THAT THE GOB WILL, IF NECESSARY, SACRIFICE PART OF ITS GROWTH OBJECTIVE (INCLUDING SLOW-DOWN OF THE AMBITIOUS INDUSTRIAL DEVELOPMENT PROGRAM). IF ONE

CREDITS THE GEISEL ADMINISTRATION WITH THE POLITICAL DETERMINATION TO PERSEVERE IN ITS PURSUIT OF THIS OBJECTIVE, IT CAN BE ARGUED THAT THE LEVEL OF BRAZIL'S IMPORTS WILL REALLY BE DETERMINED BY THE LEVEL OF EXPORT EARNINGS AND ABILITY TO ATTRACT FINANCING.

7. VALUE OF IMPORTS AFFECTED BY TARIFF INCREASES:

FOR THE TARIFF MEASURES PROMULGATED IN JUNE, CONGENRIO EARLIER ESTIMATED, BASED ON 1973 IMPORT DATA, THAT INCREASED DUTY RATES WOULD APPLY TO \$43.3 MILLION OUT OF A TOTAL OF \$1.9 BILLION IN IMPORTS FROM THE US (CACEX DATA C.I.F. - REFTEL (H)). FOR THE NEW TARIFF MEASURES, CONGENRIO ESTIMATES THAT LIMITED OFFICIAL USE

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IMPORTS FROM THE US AFFECTED MIGHT BE, AS A MIXIMUM, ON THE ORDER OF \$52.2 MILLION (USING 1973 IMPORT FIGURES AS GIVEN BY CACEX); AND IMPORTS FROM ALL SOURCES, ON THE ORDER OF (AS A MAXIMUM) \$302 MILLION (1973 FIGURES). IN FACT, THE IMPACT OF THE TARIFF INCREASES IS, HOWEVER, LIKELY TO BE CONSIDERABLY LESS THAN SUGGESTED BY THESE FIGURES; SOME ITEMS WILL BE ENTERING BRAZIL UNDER EXISTING LAFTA AND GATT AGREEMENTS, WHICH ARE EXEMPT FROM THE INCREASES (NOTE, HOWEVER, QUALIFICATION UNDER 3.(B) ABOVE.)

8. OUT OF THE SEVERAL HUNDRED ITEMS CONCERNED, THOSE FROM THE US MOST AFFECTED BY THE TARIFF INCREASES ARE:

IMPORTS FROM US	TOTAL IMPORTS
CEREAL FOR CHILDREN'S FOOD	\$3,870,011      \$3,874,618
ROUGH WALNUT WOOD FOR	
LAMINATING	3,035,041      3,035,041
UNWROUGHT PALLADIUM	2,760,292      3,714,695
VENTILATOR AND EXHAUST	
EQUIPMENT	2,661,820      7,227,628
PEARS	2,287,781      9,213,743
WHEAT FLOURS	1,244,308      1,244,308
COLORED ABSORBENT PAPER	1,212,220      2,104,133
APPLES	1,573,543      35,057,121
RAW HIDES AND SKINS - SALTED,	
DRY-SALTED, AND DRIED	1,092,256      1,825,802
ELECTRICAL ACCESSORIES	1,064,750      3,068,979
UNREFINED TOBACCO	927,061      976,812
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## Message Attributes

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**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** TARIFF BARRIERS, BALANCE OF PAYMENTS, IMPORT CONTROLS, PROGRAMS (PROJECTS)  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 07 JAN 1975  
**Decaption Date:** 01 JAN 1960  
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**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
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**From:** BRASILIA  
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